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August 31, 2018

VIA E-FILING

Jocelyn Boyd, Esquire
Chief Clerk and Administrator
South Carolina Public Service Commission
101 Executive Center Drive
Columbia, SC 29210

RE: Duke Energy Carolinas, LLC Annual Review of Base Rates for Fuel Costs
Docket No. 2018-3-E

Dear Ms. Boyd:

I have enclosed for filing the Surrebuttal Testimony of Kevin W. O'Donnell, CFA, which I am filing on behalf of the South Carolina Energy Users Committee ("SCEUC") in the above-captioned matter. By copy of this letter, I am serving all parties of record.

If you have questions, please do not hesitate to contact me.

Sincerely,

ELLIOTT & ELLIOTT, P.A.



Scott Elliott

SE/lbk

Enclosures

cc: All parties of record (w/enc.)

**BEFORE
SOUTH CAROLINA PUBLIC SERVICE COMMISSION
DOCKET NO. 2018-3-E**

In the Matter of:

Application of Duke Energy Carolinas,)	
LLC for Authority to Adjust its Base)	Docket No. 2018-3-E
Rates for Fuel Costs)	

Surrebuttal Testimony

of

Kevin W. O'Donnell, CFA

On Behalf of

South Carolina Energy Users Committee

August 31, 2018

**BEFORE
SOUTH CAROLINA PUBLIC SERVICE COMMISSION
DIRECT TESTIMONY OF KEVIN W. O'DONNELL, CFA**

1 **Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS**
2 **ADDRESS FOR THE RECORD.**

3 A. My name is Kevin W. O'Donnell. I am President of Nova Energy
4 Consultants, Inc. My business address is 1350 Maynard Rd., Suite 101,
5 Cary, North Carolina 27511.

6
7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 A. Yes. On Aug. 14, 2018, I filed testimony in this docket and made the
10 following two primary recommendations:

- 11
12 1. As part of their annual fuel filings, the Commission should require
13 Duke Energy Carolinas (DEC) and other South Carolina utilities to
14 provide hourly generation costs and commodity inputs; and
15 2. The DEC requested rate hike should be spread out over two years.

16
17 **Q. HOW DID DEC RESPOND TO YOUR RECOMMENDATIONS?**

18 A. DEC is opposed to both of my recommendations.

19

20 **Q. WHAT REASON DID DEC GIVE FOR ITS OBJECTION TO**
21 **PROVIDING MORE INFORMATION?**

22 A. According to the testimony of Mr. Grant, additional filing data would be
23 too burdensome. In respect to Mr. Grant's last point, he states:

24

1 Yes. Implementing this recommendation would be
2 enormously burdensome and would require large amounts of
3 the time of trained and experienced employees. Fuel
4 procurement and operational dispatch decisions are
5 extremely complex and are affected by a wide variety of
6 factors and circumstances. The current ORS review and
7 audit process allows the Company an opportunity to provide
8 those explanations during the interviews. Requiring DEC to
9 provide one hundred different written explanations for its
10 procurement decisions would require the Company to add
11 staff to produce reports that are not necessary given the wide
12 latitude and comprehensive practices the ORS annual review
13 and audit process currently provides.¹
14

15 **Q. HOW DO YOU RESPOND TO MR. GRANT'S COMPLAINT THAT**
16 **YOUR RECOMMENDATION IS TOO TIME CONSUMING FOR**
17 **THE COMPANY?**

18 A. I believe Mr. Grant's comments should be put in perspective. First, DEC's
19 undercollection was approximately \$65 million. This Commission and the
20 ORS have a duty to determine whether DEC's purchasing practices were
21 prudent and reasonable. With gas purchasing being done on a daily basis
22 and electricity trading hourly, it is virtually impossible to say with certainty
23 whether DEC's fuel practices were reasonable during the test year unless
24 the daily and hourly transactions are examined by regulators.
25

26 Second, in a time of advanced computers, it is hard to believe that DEC does
27 not have electronic records of hourly/daily transactions that it can easily
28 provide the Commission, the ORS, and other intervenors.
29

30 Third, while I did not find any imprudent actions by DEC in the past year,
31 Mr. Grant's testimony implies that DEC does not do any analysis to
32 determine what it did right and what it did wrong with respect to fuel

¹ Grant Rebuttal Testimony, p. 5

1 purchases. To the extent DEC is not performing any such analysis and is
 2 not looking for ways to improve its fuel buying practices, such inaction is,
 3 in of itself, imprudent.

4
 5 **Q. CAN YOU EXPLAIN HOW DEC AND OTHER MARKET**
 6 **PARTICIPANTS MAKE DECISIONS ON GAS PURCHASING AND**
 7 **ELECTRIC GENERATION IN THE POWER MARKETS?**

8 A. Yes. Mr. Grant is correct in that natural gas trades on a day-ahead basis.
 9 When DEC makes its decision each night as to its gas purchases, it examines
 10 the price of natural gas trading on a day-ahead basis, converts that price to
 11 the price of electricity using the heat rate of the DEC plants, and then
 12 compares the hourly price of electricity generated by the DEC plants to the
 13 anticipated hourly price it can buy electricity in the open market.

14
 15 I am recommending that DEC be completely transparent with the
 16 Commission and provide the daily decision variables it examined in the 100
 17 highest peak days in the test year. As I stated previously, this information
 18 should be in electronic form and be easily available to DEC.

19
 20 **Q. CAN YOU PROVIDE AN EXAMPLE OF THE ANALYSIS YOU**
 21 **RECOMMEND DUKE PROVIDE THE COMMISSION AS PART OF**
 22 **ITS ANNUAL FUEL FILINGS?**

23 A. Yes. In O'Donnell Surrebuttal Exhibit KWO-1, I have provided a brief
 24 hypothetical analysis of the type of decisions that DEC would make on a
 25 January day. A description of the columns is as follows:

- 26
 27
 - Columns 1-3 are self-explanatory;
 28
 - Column 4 is the average utility heat rate for the utility set of
 29
 - plants it would examine for operation in the next day;

- Column 5 is the amount of gas the utility would buy to serve the plants that underlie the assumed heat rate of the portfolio used in column 4 for the average heat rate;
- Column 6 is column 4 multiplied by column 5 and represents the total dollar amount, on an hourly basis, that the utility would pay to produce the MWHs of generation as found in column 7.
- Column 7 is the total amount of generation produced on an hourly basis.
- Column 8 is the average generation prices in \$/MWH, which is calculated by dividing column 6 by column 7.
- Column 9 is the observed open market price in \$/MWH.

The analysis would “look back” each day to see what lessons, if any, DEC can learn to better serve customers in the future. The intent is not to “second guess” DEC as I do recognize electricity trades hourly and gas trades day-ahead. However, to the extent that the average cost found in the open market is consistently below the generation price of DEC, the Company should be required to inform whether it self-generated or purchased power on the open market, and where appropriate, justify why it chose the higher cost alternative. If generation prices are consistently lower than open market price, DEC should be willing to show the regulators this information.

In addition, as I previously testified DEC should continue to provide the Commission, ORS and interested parties with monthly fuel reports and quarterly fuel forecasts as is currently required.

1 **Q. HOW DO YOU RESPOND TO MS. MCGEE'S**
2 **CHARACTERIZATIONS OF YOUR PRE-FILED DIRECT**
3 **TESTIMONY?**

4 A. Ms. McGee and I may disagree as to the language of the undercollection
5 and how it got to be as large as it is. However, at the end of the day, DEC
6 is still seeking an 8% rate hike for manufacturers, about a 6% rate hike for
7 commercial consumers, and a 4% rate hike for residential consumers.
8 Regardless of how we got to this point, the requested rate hikes are
9 substantial and come just before DEC plans to file a general rate case in
10 South Carolina where, if the Company's rate increase is similar to what it
11 sought in North Carolina, the Company will be seeking a rate hike in excess
12 of 13%.² A 21% rate hike to manufacturers would be extremely
13 burdensome and would adversely affect a large portion of the SC economy.

14
15 My request is simply that the Commission take into consideration the
16 burden the fuel hike is placing on the ratepayers and the economy of the
17 State and split the rate hike into two successive years while authorizing
18 DEC recover its present day value of its costs recovered in year two.

19
20 **Q. WHAT IS THE COST TO DEC IF THE COMMISSION WERE TO**
21 **ACCEPT YOUR RECOMMENDATION TO SPREAD THE**
22 **UNDERCOLLECTION OVER TWO YEARS?**

23 A. To put it in perspective, the carrying costs of the second phase of the rate
24 hike would amount to approximately \$1 million. In contrast to DEC's 2017
25 profit of \$3 billion, the carrying cost for DEC of \$ 1 million is insignificant.

26

27 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

28 A. Yes, it does.

² DEC Application in NCUC Docket NO. E-7, Sub 1146, p. 4

Generation or Buy on Open Market?

Month	Day	Hour	Heat Rate	Day-Ahead Gas Purchase Volumes	Total Generation Price	Total MWHs	Generation Price	Open Market Price
			MMBTU/MWH	MMBTU	(\$)		\$/MWH	\$/MWH
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Jan.	1	000	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	100	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	200	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	300	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	400	10	1,000,000	\$10,000,000	200,000	\$50	\$40
Jan.	1	500	10	1,000,000	\$10,000,000	200,000	\$50	\$40
Jan.	1	600	10	1,000,000	\$10,000,000	200,000	\$50	\$50
Jan.	1	700	10	1,000,000	\$10,000,000	200,000	\$50	\$75
Jan.	1	800	10	1,000,000	\$10,000,000	200,000	\$50	\$100
Jan.	1	900	10	1,000,000	\$10,000,000	200,000	\$50	\$120
Jan.	1	1000	10	1,000,000	\$10,000,000	200,000	\$50	\$120
Jan.	1	1100	10	1,000,000	\$10,000,000	200,000	\$50	\$90
Jan.	1	1200	10	1,000,000	\$10,000,000	200,000	\$50	\$70
Jan.	1	1300	10	1,000,000	\$10,000,000	200,000	\$50	\$60
Jan.	1	1400	10	1,000,000	\$10,000,000	200,000	\$50	\$50
Jan.	1	1500	10	1,000,000	\$10,000,000	200,000	\$50	\$50
Jan.	1	1600	10	1,000,000	\$10,000,000	200,000	\$50	\$50
Jan.	1	1700	10	1,000,000	\$10,000,000	200,000	\$50	\$50
Jan.	1	1800	10	1,000,000	\$10,000,000	200,000	\$50	\$40
Jan.	1	1900	10	1,000,000	\$10,000,000	200,000	\$50	\$40
Jan.	1	2000	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	2100	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	2200	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	2300	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Jan.	1	2400	10	1,000,000	\$10,000,000	200,000	\$50	\$30
Average							\$50	\$53

CERTIFICATE OF SERVICE

The undersigned employee of Elliott & Elliott, P.A. does hereby certify that (s)he has served below listed parties with a copy of the pleading(s) indicated below by mailing a copy of same to them in the United States mail, by regular mail, with sufficient postage affixed thereto and return address clearly marked on the date indicated below:

RE: Duke Energy Carolinas, LLC Annual Review of Base
Rates for Fuel Costs

DOCKET NO.: 2018-3-E

PARTIES SERVED: Jeffrey M. Nelson, Esquire
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PLEADING:

SURREBUTTAL TESTIMONY OF KEVIN W.
O'DONNELL, CFA ON BEHALF OF SOUTH
CAROLINA ENERGY USERS COMMITTEE

August 31, 2018



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